

# Understanding How TVA Works



Part 4 in TVA's Business Education Series

## Serving TVA's Customers

Who are they?

How did they become our customers?

What happens if TVA loses a customer?

**T**his is the fourth edition in the series "Understanding How TVA Works." This ongoing series is designed to help you better understand the business of TVA and your role in helping the company achieve its Strategic Objectives.

In the first three installments in this series, we have looked at

- "The Big Picture" — A snapshot of the business of this huge corporation called "TVA."
- "The TVA Checkbook" — What comes in and what goes out.
- "Adding Value to the Valley" — What does TVA produce?

In "Adding Value to the Valley — What does TVA produce?," we learned that TVA has many products and services that improve the quality of life for the citizens of the Tennessee Valley, **but the primary product is affordable, reliable electric power.**

**TVA is like any business — we at TVA sell our product to our customers... and meeting our customer's needs better than any other supplier is the key to TVA's future success.**

This month, we will take a close look at our customers — the companies that pay for TVA's product of POWER.

Who are these customers?

- **158 municipal and co-op** distribution systems that in turn provide electricity to more than 3 million homes and businesses
- **62 directly served** industries and federal facilities
- **12 utilities** with which we have power-exchange agreements

**Let's look at each of these customers...**





# TVA's Distributor Customers

**F**rom its very beginning, TVA has been charged with producing electricity for the benefit of the people of the Tennessee Valley at the lowest possible rates. In 1933, TVA first announced its electric rates, which were well below the prevailing prices of the time. Municipal electric systems, located primarily in cities and some of the larger towns, immediately began to vote to buy power from the new federal corporation.

Electric cooperatives soon followed suit. The electric cooperatives were generally located in less-populated areas, and many were originally formed to bring electricity to the farthest reaches of the Valley.

In 1939, the U.S. Supreme Court denied challenges by other power companies to stop TVA's customer expansion. Within a few years, the TVA power system was supplying an 80,000-square-mile service area.

Today TVA serves 108 municipal power systems (munis) and 50 electric cooperatives (co-ops) across its seven-state service territory. These distributor customers bought more than 128 billion kilowatt-hours of electricity from TVA in 2002 to serve a total of 8.3 million people.

TVA's role as a wholesale power-and-transmission provider is significantly different from other electric utilities, which typically operate generation and transmission facilities and also act as local distribution companies directly serving residential, commercial and industrial power customers. With the exception of TVA's directly served customers, power consumers in the Tennessee Valley are the customers of the municipal and cooperative distribution systems served at the wholesale level by TVA. Just like any other businesses, these local distributors are very protective of their relationships with their customers.

## How much revenue does TVA get from the distributors?

Sales to distributor-served municipal and cooperative customers accounted for nearly \$5.86 billion, or 85.7 percent, of all revenue TVA collected in 2002.

## What kind of contract does TVA have with its distributor customers?

As in most business relationships, TVA has contracts with customers that outline the terms of the agreement. The TVA Power Contract governs the relationships between TVA and its distributor customers, including the prices they pay. The contract provides for a distributor's **full power requirements**, meaning TVA agrees to generate and deliver enough electricity to meet the customer's full electric load, including planning for the customer's future load growth. To do this, TVA must have either enough generating capacity or purchased power to meet the customer demand and a highly reliable transmission system.

TVA's Contracts & Pricing Staff develops and manages these contracts with customers and develops electricity-pricing products that are competitive and provide an adequate revenue stream for TVA.

Most of TVA's distributor customers have contracts with TVA of at least five

years in length. The majority of the distributors have **"rolling 5-year contracts."** If a distributor decides to cancel its contract with TVA, the notice period is five years.

In the past year, four TVA distributor customers have officially given TVA notice of contract cancellation. This does not signify the end of TVA's relationships with these distributors. It is simply their official notice that they intend to evaluate the options available to them in five years. In the meantime, these customers are all very important to us at TVA, and we are working hard to continue to earn their business.

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**To ensure these customer needs are met effectively, TVA's Customer Service & Marketing organization, through its network of field offices, is in direct, daily contact with our distributor customers.**

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One way that we at TVA are trying to earn the business of our customers is to develop more flexible contracting options, including a longer-term option and a partial-requirements contract — which would allow distributors to buy a portion of their power needs from other suppliers.

## How does TVA serve the different needs of all of the distributor customers?

TVA's distributor customers vary dramatically in the size of the geographic areas they serve, in electric load (the amount of electricity they need) and in numbers of customers. Whether the distributors are urban or rural, primarily residential or heavily industrialized, TVA works hard to meet all of their customer's individual needs.

The Customer Service organization manages the relationships between TVA and these customers by focusing on **rates, reliability and relationships**. Its objective is to retain all power distributors as customers of TVA by providing a high level of customer satisfaction. Each distributor is served by a Customer Service Manager who is a central point of contact for a wide range of services available through TVA. CSMs also work closely with TVA's Transmission/Power Supply organization to maintain power-supply reliability and provide emergency assistance.

TVA's Marketing organization works in partnership with Customer Service and distributors of TVA power to develop products and services that residential, commercial and industrial consumers can use to control energy costs and solve energy problems.

## What is the Tennessee Valley Public Power Association?

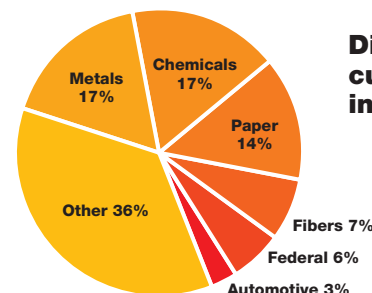
TVPPA is the nonprofit trade association representing the interests of the distributors of TVA power. TVPPA's role is to be the advocate for member interests to the public, legislative and regulatory bodies, power suppliers and others. TVA has a long history of working closely with TVPPA on issues such as wholesale rates, contracts and legislation that affect TVA and the organization's members. To learn more about TVPPA, visit its Web site at [www.tvppa.com](http://www.tvppa.com).



# TVA's Directly Served Customers



**T**VA is the direct provider of retail electricity to 54 of the Valley's industries, including such giants as Saturn, Alcoa and Nucor. In addition to these industrial customers, eight federal installations, such as Columbus Air Force Base in Mississippi and Oak Ridge National Laboratory in Tennessee, are directly served by TVA. Most of these directly served retail customers consume massive quantities of electricity, and for some the cost of electricity is 60 to 75 percent of their total production costs. Directly served customers, especially commodity producers, are highly dependent on low-cost electricity to maintain a competitive position.



**Directly served customer sales by industry type**

## How much revenue does TVA get from the directly served customers?

As a group, these customers bought about 28.2 billion kilowatt-hours of electricity from TVA in 2002 and accounted for 11.8 percent, or \$808 million, of total revenue.

this product would be the last to have their power supplies interrupted in a system emergency. This high reliability does not come without a price, and firm power is more expensive than other supply options.

## What kind of contract does TVA have with the directly served customers?

Many directly served customers buy a mix of "firm" and "interruptible" power from TVA.

**Firm power** is the most reliable power supply, since customers buying

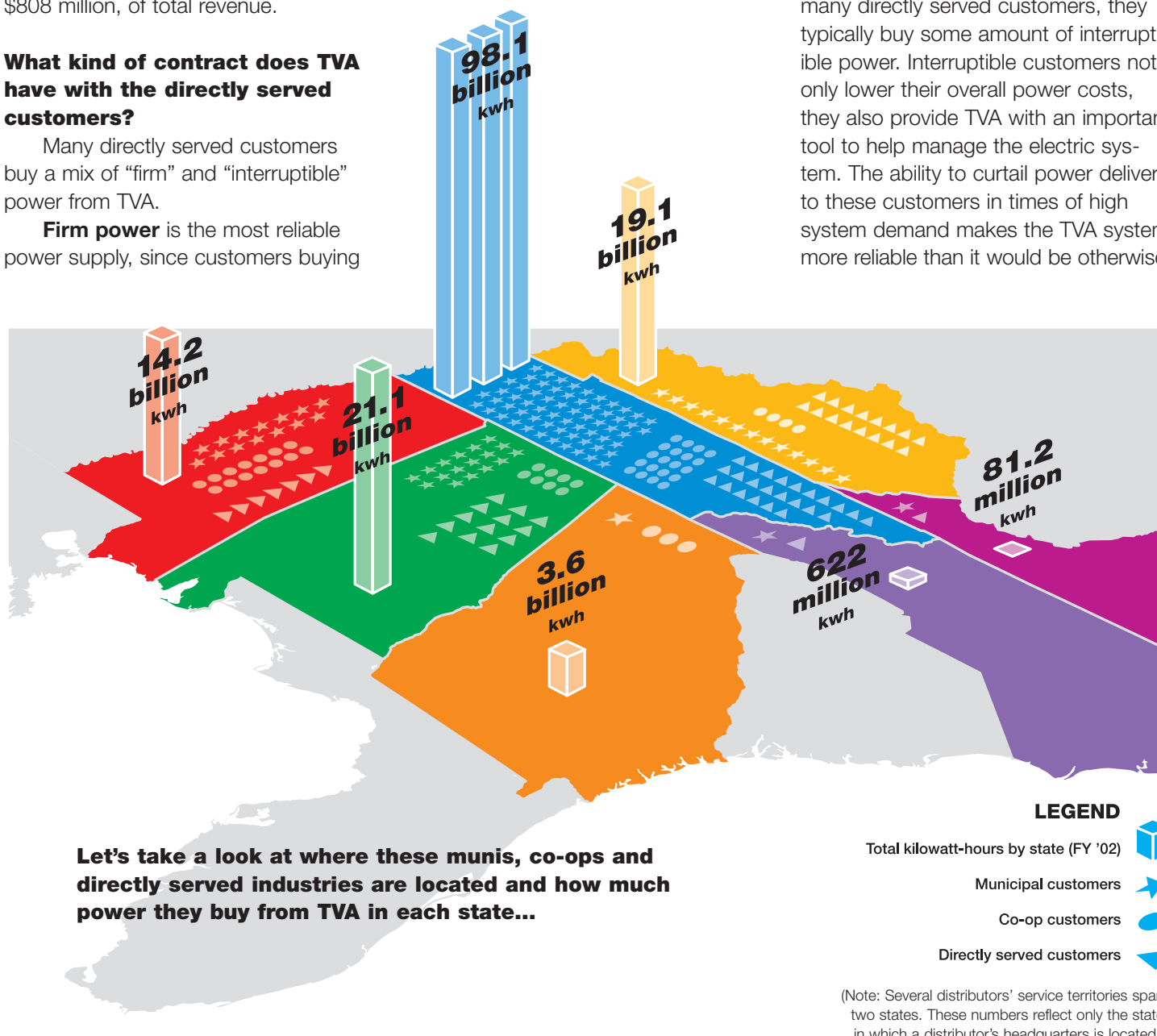
**Interruptible power** is available under a range of options and can be interrupted by TVA under a variety of conditions. The customer agrees to these conditions in the supply contract in exchange for a lower overall price. Because power is such a big cost for many directly served customers, they typically buy some amount of interruptible power. Interruptible customers not only lower their overall power costs, they also provide TVA with an important tool to help manage the electric system. The ability to curtail power delivery to these customers in times of high system demand makes the TVA system more reliable than it would be otherwise.

## How does TVA serve the needs for the diverse group of directly served customers?

Customer Service & Marketing's Industrial Marketing organization serves as the primary point of contact for the directly served customers. Industrial Account Managers play an important role in maintaining high customer satisfaction among this group of customers. IAMs identify business opportunities that will increase the profitability both of TVA and the customers and negotiate and manage power contracts that are beneficial to both parties. All of this helps to improve these customers' competitive positions, and that helps keep these companies — and the jobs they provide — in the Tennessee Valley.

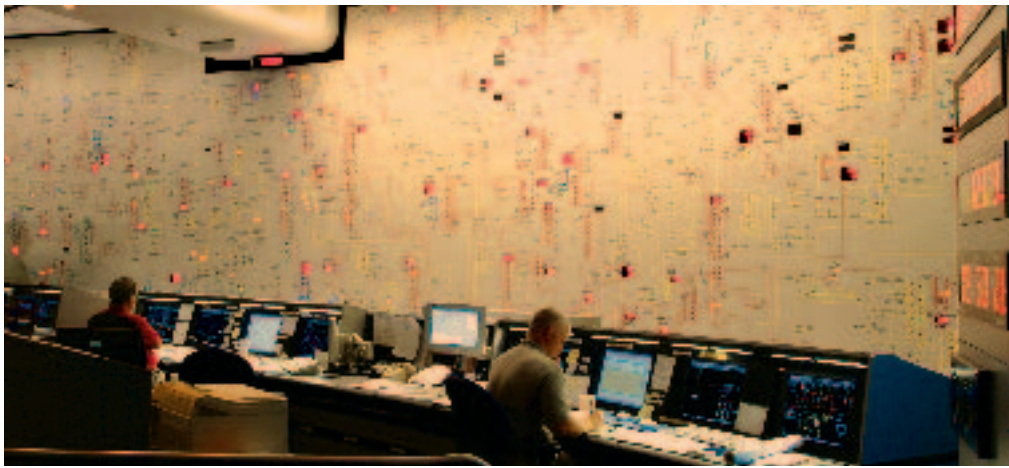
## What is the Tennessee Valley Industrial Committee?

TVIC is an organization that represents 31 of TVA's directly served industrial customers. TVIC lobbies for its members on issues such as competitive pricing products, legislation and power-supply arrangements.

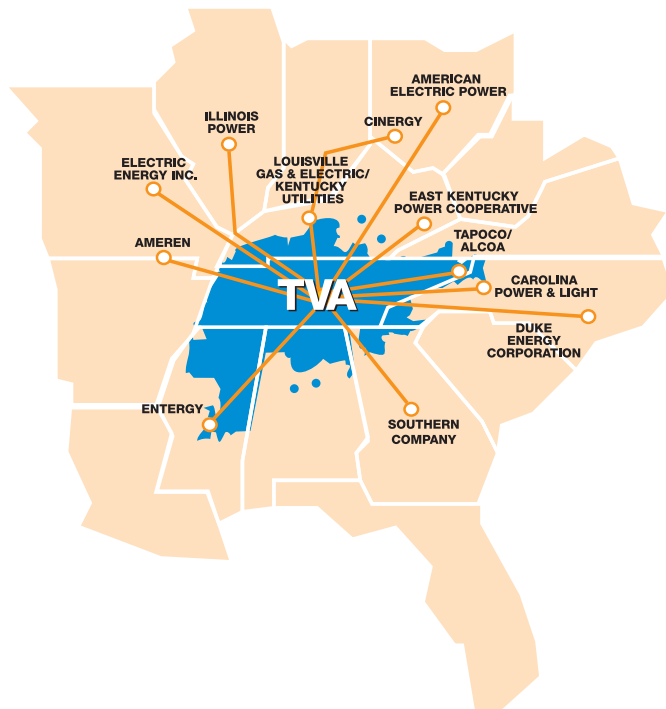


**Let's take a look at where these munis, co-ops and directly served industries are located and how much power they buy from TVA in each state...**





# TVA's Offsystem Customers



**W**hen TVA has more power available than its customers are using, it may be able to sell that power to other power companies. Bulk Power Trading sells power to 12 offsystem customers located outside the TVA service territory to which the TVA Act permits TVA to sell power. In 1959, TVA was restricted by Congress to selling power outside the TVA service area to what then included 14 power-generating companies with which TVA had exchange-power arrangements as of July 1, 1957. Due to mergers over the years, TVA now can sell surplus power for consumption outside the TVA service area to the counterparties shown on the map at left.

BPT has a unique relationship with its counterparties. These companies can be TVA customers, suppliers, competitors or any combination of the three. This unique arrangement to buy or sell energy gives TVA flexibility that is critical to providing affordable, reliable power. By having the ability to sell any excess energy, TVA not only generates additional revenue but also avoids the high cost of shutting down and restarting power plants.

The recent decline of liquidity in the power market and the amount of TVA surplus generation has had a major impact on offsystem sales. In 1997, TVA sold more in the market than it purchased. By 2002, however, purchases outnumbered sales — a trend that's expected to continue in the near future.

BPT continues today to actively trade in the hourly, daily and monthly markets when TVA system economics and market opportunities match. These opportunities are coordinated closely with Electric System Operations, Power Resources & Operations Planning and Risk Management to ensure the best decisions for the overall TVA system are made.

## What does all of this mean? Why should you care about TVA's customers?

**I**t is important for any business to know and understand its customers. This is also true for TVA. It is important that every employee understand the intricate relationship with TVA's customers.

*It is critical to TVA's future that these customers continue to buy their power from TVA. Simply put, without these customers, TVA could not exist. This is true in part because under the terms of the 1959 amendment to the TVA Act, TVA is prohibited from competing for new customers outside its existing service territory.*

*This provision could be changed by energy legislation currently being considered in the U.S. Congress. TVA and its customers have developed a consensus position — which could be inserted in federal legislation — that would establish a framework for opening up the service territory to wholesale power competition while allowing TVA to seek additional wholesale customers outside its current borders.*

*Since every employee has a stake in TVA's business, it is important that we all understand the relationship with our customers and how legislation could impact our service territory and ability to provide service to our current or future customers.*

### What You Can Do

- Increase your knowledge and understanding of how TVA works.
- Learn as much as you can about TVA's customers. A full list and more details about customers can be found on TVA's internal Web site.
- Learn as much as you can about proposed legislation that can impact TVA. *Inside TVA*, *TVA Today* and InsideNet provide up-to-date information about proposed or pending legislation that may impact TVA.
- Understand how your actions impact TVA's relationship with its customers.
- Keep a clear line of sight between your work and the Winning Performance Objectives.
- Be an advocate for TVA with your friends, neighbors and family.

**You can view this special insert on TVA's internal Web site.**

**For more about TVA operations and facilities, go to [www.tva.com](http://www.tva.com).**